

# Lucas Group Partners

## Unemployment Insurance Reforms

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### Summary of Recommendations

April 2011

Dr. William Oliver, Partner  
The Lucas Group

### Agenda

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Purpose of this study

The UI situation in Michigan

Lucas Group recommendations

Next steps

## Purpose

### Purpose of the Study:

- The Chamber commissioned this study to evaluate and recommend reforms to Michigan's insolvent unemployment insurance (UI) system

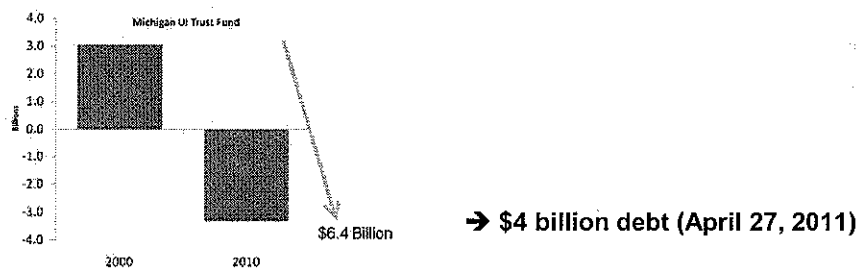
### Purpose of this Presentation:

- Frame the issue, outline the crisis facing Michigan's employer-financed UI system
- Identify "why" we owe \$4 billion to the federal government
- Present key legislative, administrative and policy recommendations to attack the problem – \$350-\$550 million in annual cost savings

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## The Situation

**Michigan's employer-financed UI fund is in negative balance, down \$6.4 billion in 10 years**



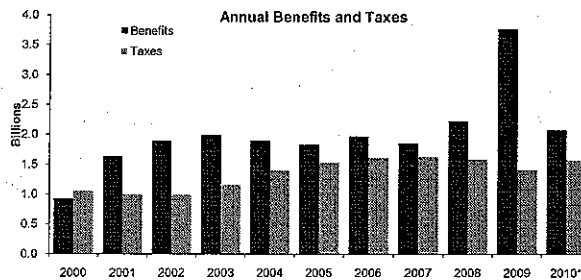
**Michigan's UI debt is the highest in the nation, behind California, giving the state a "black eye"**

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## The Situation

Michigan's high unemployment only accounts for 18% of the problem

Fund activity has been imbalanced for a decade



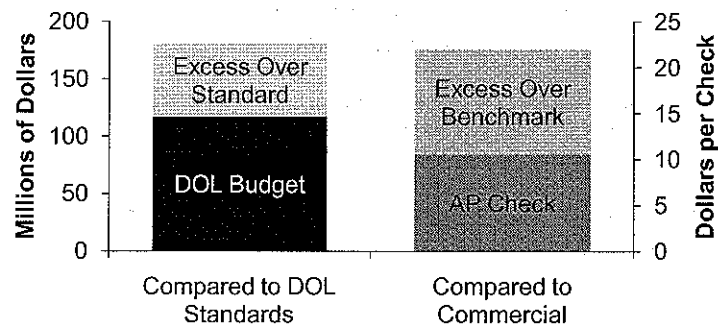
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## The Situation – Cost-Drivers

Three Key Cost-Drivers Also to Blame:

### 1. UI program is too costly

- Program rife with fraud and overpayments
- Eligibility rules and benefit formulas are too loose, need updating
- UI program is expensive, \$64 million higher than amount budgeted by the federal government



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## The Situation – Cost-Drivers

### 2. UI program is too slow

- Primarily an issue with the appellate system

Performance Dimension	Minimum Acceptable Performance	Current Performance
First Payment with 14* days after the end of the first compensable week	87%	84.5%
Average Age of Claims Pending Higher Authority Appeals	40 days	22% of appeals have been open 180+ days
Average Age of Claims Pending Lower Authority Appeals	30 Days	63.9% have been pending 40+ days
Nonmonetary Determination Quality — Initial Claims	75%	74%
Nonmonetary Determination Quality — On-going Claims	75%	93%

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## The Situation – Cost-Drivers

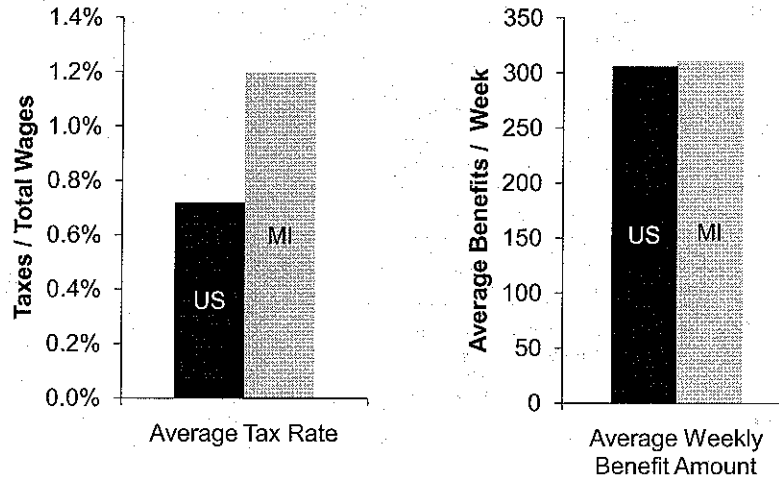
### 3. UI program is inaccurate

- MI completes a fully accurate claim only 85% of the time, resulting in fraud and overpayments
  - US DOL estimates \$438 million in waste and fraud in 2010
  - Of that, \$131 million attributable to people working while fraudulently collecting
  - UIA is currently working to collect from 208,000 claimants with overpayments
    - Overpayment = Benefit payments later determined to be invalid. These include payments made during the appeals process
    - Overpayments happen because UIA cannot meet the federal requirements for finally determining eligibility, so they "pay and chase"
    - \$640 million paid on invalid claims, with 10% of these paid in excess of \$8,000. To date, only \$83 million has been collected
    - UIA has difficulty collecting these overpayments
- Little accountability due to automated initial and weekly certification of claims; creates potential for misuse

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## UI: Growing Burden for Job Providers

UI Taxes are nearly 50% higher than the national average, even though benefits are about the same as other states



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## UI: Growing Burden on Job Providers

Unless something is done, Michigan's debt will automatically trigger higher federal UI tax rates each year for the next 10 years to repay principal on the loan

Employers will also need to pay \$1 billion in interest on the UI debt over the next decade

- This amount is above regular state and federal UI taxes and the higher federal taxes
- This situation could get worse (e.g., if the debt gets worse, Michigan experiences another recession)

**\$5 billion in debt and interest = \$1,400 per worker**

- Note: This calculation is made for illustration purposes only

Given the size and scope of the debt, action is needed

The Lucas Group recommends key legislative and administrative changes that will begin to eliminate the debt and put the program on the road to solvency

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## Major Re-engineering of UI Program Needed

Recommendation	How this will save Michigan Employers/Taxpayers	Potential for Annual Savings
Pursue fraud and abuse more proactively/aggressively	Detect and capture fraud. Michigan's recovers less than 1% of claims as fraud (nationally, recover 2%)	\$30-50 MM
Eliminate the "pay and chase" approach to claims management	Eliminate overpayments, which are instances in which UIA pays claimants benefits they never were eligible for, but takes as much as a year to resolve	\$60-80 MM
Tie UI more closely to work search activities to get claimants back to work	Michigan benefits in two ways: (1) fewer weeks of claims benefits, and (2) employees get back to work, strengthening the economy	\$30-40 MM
Revise non-monetary eligibility requirements (national best practices)	Savings found by revising seasonal worker definitions, gross misconduct, and requiring claimants to accept job offers reflective of the current job market	\$30-50 MM
Revise monetary eligibility requirements	Savings found by making fewer weekly benefit payments (waiting week)	\$80-100 MM
Implement new benefit formula (52 weeks vs. high quarter)	Savings found by implement controls to avoid benefit spiking due to seasonal or other peaks in pay	\$150-250 MM
Create a new, quality management approach to managing claims	This is fundamental to many of the other recommendations. In addition to improving quality, it should reduce cost of administration	\$50-70 MM
		<b>\$350-550 MM</b>

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## Key Steps to Implementation

### Legislative Changes

- ☐ Overhaul the appellate system to more quickly settle claims disputes
- ☐ Narrow the opportunities for claimants to take unfair advantage of the system
  - ☐ Allow more companies to be "seasonal"
  - ☐ Eliminate the "attached worker" program
  - ☐ Raise the bar on "suitable work" as the claim ages
  - ☐ Increase disqualification for employees fired for misconduct
- ☐ Implement a waiting week
- ☐ Revise benefit formula to avoid benefit spiking

### Administrative Changes

- ☐ Implement commercial data mining software to find and prosecute claimant fraud and abuse
- ☐ Eliminate "pay and chase" – improve processes through continuous improvement and policy improvements to ensure that all eligibility determinations are finalized within the required 21 days

### Policy Improvements (non-legislative)

- ☐ Require claimants to report more details of job search activity, sufficient to audit in a meaningful manner

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## **Summary**

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**\$4 Billion in debt, plus \$1 Billion in interest will take 10 years to repay**

**While high unemployment is a key cause, over half of Michigan's deficit is related to shortcomings in the program itself:**

- ☐ Slow
- ☐ Inaccurate
- ☐ Costly

**System-wide reforms could reduce costs \$350-550 million annually**

- ☐ Solvent in half the time
- ☐ Build a solid future for workers, employers and taxpayers

**Policy makers need to take action – unaddressed, this problem will only get worse**

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# **Questions?**

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